



BIENNIIUM REVIEW

Taxes

Key changes

- Democrats passed an unnecessary, unpopular, unreliable, and unconstitutional capital gains income tax.
- There was bipartisan support for an expansion of the Working Families Tax Exemption.
- Bipartisan bills responding to the COVID-19 related economic shock included a B&O tax exemption for funds received as emergency assistance, and the ability to defer 2021 property taxes.
- Republican bills to provide tax relief that passed included a bill to expand eligibility for the senior citizen and disabled veteran property tax relief program and a bill to eliminate penalties and reduce interest on delinquent property taxes for residential parcels with four or fewer units.

Background

The 2021 session will be remembered for passage of the capital gains income tax and funding of an expanded eligibility and remittance structure for the Working Families Tax Credit. The 2022 session will be remembered for the lack of any meaningful broad-based tax relief despite a \$15 billion surplus. In terms of help for business, there was an increase in small business B&O tax credits, help for data centers, and new incentives for green hydrogen and solar manufacturing.

2021 Bills

- ✓ [Senate Bill 5096](#) (Robinson) – **Capital Gains Income Tax**. Imposes a seven percent tax on the amount of capital gains reported on an individual's federal income tax return. There is a standard exclusion of \$250,000 per year, and a list of exclusions from the state capital gains tax that includes all real estate, assets held in a retirement account, livestock related to farming or ranching, timber, commercial fishing privileges, and goodwill received from the sale of a franchised auto dealership. There is a deduction for gain from the sale of a qualified family-owned small business. *Passed House 52-44-2. Signed by Governor. Tax is effective January 1, 2022.*
- ✓ [House Bill 1297](#) (Thai/Stokesbary) – **Working Families Tax Exemption (WTFE)**. Expands eligibility for the WTFE to include filers who do not have a social security number, but instead use an individual taxpayer identification number. The bill also expands the base remittance amount and establishes phaseout rates for the remittance. The base remittance is \$300 for eligible persons with no children and goes up to \$1,200 for persons with three or more qualifying children. Note: The WTFE was passed in 2008, but has never been funded until this session in the 2021-23 operating budget. *Passed House 93-3-2. Signed by Governor. Effective July 25, 2021.*
- ✓ [House Bill 1095](#) (Walen/Boehnke) – **Taxation of Governmental Financial Assistance**. Provides a business and occupation tax, a public utilities tax, and a retail sales tax exemption for a qualifying grant received by a taxpayer related to a national or state emergency proclamation. *Passed House 98-0. Signed by Governor. Effective February 19, 2021.*
- ✓ [House Bill 1332](#) (Sullivan) – **Property Tax Deferral During the COVID-19 Pandemic**. Requires county treasurers to grant a deferral of 2021 property tax payments for certain businesses that can demonstrate a loss of at least 25 percent of revenue for calendar year 2020 compared to calendar year 2019 via establishment of a payment plan. *Passed House 97-0-1. Signed by Governor. Effective April 16, 2021.*

- ✓ [House Bill 1438](#) (Orcutt) – **Modifying Income Thresholds for Eligibility of Property Tax Exemptions.** The expenses that are deducted when determining combined disposable income for eligibility are expanded to include such things as the cost of long-term care insurance and Medicare supplemental insurance policies, medically prescribed oxygen, and insulin. *Passed House 98-0. Signed by Governor. Effective July 25, 2021.*
- ✓ [House Bill 1410](#) (Volz) – **Protecting Taxpayers from Home Foreclosure.** Eliminates penalties of three percent and eight percent on delinquent property taxes for residential parcels with four or fewer units and reduces the interest on delinquent property taxes for the same parcels from 12 percent to nine percent. *Passed House 97-0-1. Signed by Governor. Effective January 1, 2022.*

2021-23 Operating Budget information

The Department of Revenue (DOR) was appropriated \$6.7M to administer the capital gains income tax. DOR expects to need 24 full-time equivalent (FTE) personnel to administer the tax by FY 2023. The four-year revenue impact is now \$1.255B (\$415M in FY '21 and \$840M in '21-23) and is reflected in the resources page in the conference budget report (p. 47 of the [summary](#)); this is revised down from the last fiscal note of April 21. DOR was appropriated \$19M for administering the Working Families Tax Exemption (WFTE) program and will need 29 FTE. Payments to 420,000 recipients of the WFTE will cost \$242M in FY '21-23 (first payments issued in Fiscal Year 2023), and \$518M in FY '23-25.

Other Tax Proposals

2021 Session Democrat Tax Increase Proposals 2021 Session (As Introduced)				
Bill	Tax	\$M FY 2021-23	\$M FY 2023-25	Status
1406	Wealth Tax (1%)	4900	4900	FIN (9-7). In APP
1496	Income Tax on Capital Gains (9.9%)	470	1014	Hearing in FIN. House passed Senate Bill 5096 (7%). 52-44-2.
1201	Health Insurance Tax for public health (\$3.25/month)	205	343	In FIN; No Hearing.
1465	Estate Tax (doubling top rate to 40%)	106	169	Hearing in FIN.
1365	Devices Tax (\$2-5 per "smart" device)	62	79	Tax removed in EDUCATION.
1477	Telephone /Wireless line tax for 988 Crisis Line (\$.30-\$.75 per line)	98	166	Tax reduced to \$.24-\$.40 in Senate. Passed. 71-25-2.
1460	Internet Subscription and Telephone Tax \$.25/month for Digital Equity	47	57	Tax removed in FIN. In Rules.
1069	Local Gov't Fiscal Flexibility - removes current law exemption for new and leased vehicles from .3% local option sales tax for criminal justice.	2	2	Tax on cars removed in FIN. Passed. 56-42.
5371	New state sweetened beverage tax for public health \$0.0175 per fluid ounce.	359	478	Hearing in Senate Health & Long-Term Care
Total		\$6.249B	\$7.208B	

Also of note, Democrats proposed [SJR 8204](#), which would amend the Washington Constitution to allow school district bond measures to pass with 55 percent approval rather than 60 percent. And this brief does not address [House \\$0.18 gas tax proposal](#) or indirect gas tax from climate bills (low carbon fuel standard, and cap-and-trade).

2022 Supplemental Session

- ✓ [Senate Bill 5980](#) (Carlyle) – **Small Business B&O Tax Relief**. Increases the business and occupation tax small business credits. Increases the business and occupation filing threshold to \$125,000. *Passed House 97-0-1. Signed by Governor. Effective January 1, 2023.*
- ✓ [House Bill 1015](#) (Maycumber) – **Equitable Access to Credit**. Creates a credit against business and occupation taxes owed for contributions made to and Equitable Access to Credit Program within Commerce. *Passed House 98-0. Signed by Governor. Effective June 9, 2022*
- ✓ [House Bill 1641](#) (Hoff) – **Custom Farming**. Reinstates a business and occupation tax exemption for custom farming and a public utilities tax exemption for the hauling of farm products. *Passed House 98-0. Signed by Governor. Effective July 1, 2022.*
- ✓ [Senate Bill 5974](#) (Lias) – **Move Ahead Washington transportation policy**. Provides \$17 billion in revenues for transportation, with more than \$15 billion from existing sources. The aircraft fuel tax is increased from 11 cents to 18 cents. There are multiple fee increases associated with drivers and vehicles. Local governments may increase the sales and use tax in transportation benefit districts by a vote of the council. *Passed the House 54-43. Signed by Governor. There are multiple effective dates in this bill, yet most new fees and taxes start July 1, 2022.*
- ✓ [Senate Bill 5528](#) (Pedersen) – **Sound Transit Tax Increase**. Provides Sound Transit authority to create enhanced service zones where in addition to all taxes they currently charge they will add an additional 1.5 percent motor vehicle excise tax (total 2.6%) and a new commercial parking tax that was not limited in the amount that can be imposed. These are to be voter approved. *Passed the House 50-48. Signed by the Governor. Effective June 9, 2022.*
- ✓ [Senate Bill 5505](#) (Rolfes) – **Farmers Markets**. Reinstates a property tax exemption used by certain nonprofit organizations that host farmers markets. *Passed the House 96-0-2. Signed by Governor. Effective June 9, 2022.*
- ✗ [House Bill 2018](#) (Paul) – **Sales Tax Holiday**. Provides a one-time Labor Day Weekend sales tax holiday on items valued less than \$1,000, with mitigation payments to local jurisdictions for lost tax receipts. *Passed House 91-7. Died in Senate Ways & Means.*

Select Business Tax Incentives

- ✓ [House Bill 1386](#) (Wicks) – **Property Tax Exemption for Industrial/Manufacturing Facilities in Targeted Urban Areas**. Under existing law certain cities are authorized to grant a 10-year local property tax exemption for new industrial or manufacturing facilities in designated areas. This bill expands eligibility to any city or town and expands the eligible facilities to include those with a transportation use. The bill specifies certain labor specifications that must be given priority by a city when evaluating applications for an exemption. *Passed House 97-0-1. Signed by Governor. Effective July 25, 2021.*
- ✓ [House Bill 1846](#) (Berg) – **Tax Preferences for Rural & Nonrural Data Centers**. Expands and extends the existing sales and use tax exemption for data centers in rural counties. Establishes a sales-and-use tax exemption for the purchase of eligible server equipment, and related labor and services, for eligible data centers in counties with a population over 800,000. Requires a qualifying business operating a new data center to attain a specified sustainable design or green building standard certification within three years after being placed in service. Requires data centers receiving an exemption to be developed under a community workforce agreement or project labor agreement, for new construction work performed on computer data center site. *Passed House 68-30. Signed by Governor. Effective June 9, 2022.*
- ✓ [House Bill 1914](#) (Riccelli) – **Motion Picture Program**. Increases the total statewide Business and Occupation (B&O) tax credit limit for Program contributions from \$3.5 million to \$15 million per calendar year. Increases the B&O tax credit limit one person may claim for Program contributions from \$750,000 to \$1 million per calendar year. Extends the termination from July 1, 2027, to July 1, 2030. *Passed House 96-2. Signed by Governor. Effective June 9, 2022.*

- ✓ [House Bill 1988](#) (Shewmake) – **Sales Tax Deferral for Clean Technology Manufacturing, Alternative Fuels Production, and Renewable Energy Storage.** Establishes a retail sales tax deferral program for certain investment projects in clean technology manufacturing, clean alternative fuels production, and renewable energy storage. Reduces the amount of state sales and use tax that must be repaid by eligible projects if the recipient complies with specified labor standards. *Passed House 56-40. Signed by Governor. Effective July 1, 2022.*
- ✓ [Senate Bill 5714](#) (Carlyle) – **Sales Tax Deferral for Solar Canopies on Commercial Parking Lots.** Defers state and local sales and uses taxes on a qualified solar canopy, including labor and services rendered in the planning, installation, and construction of the project, that is located in a qualifying commercial center. Reduces the amount of state sales and use tax to be repaid if the recipient complies with specified labor standards. *Passed House 57-40. Signed by Governor. Effective July, 1 2022.*
- ✓ [Senate Bill 5287](#) (Das) – **Affordable Housing Incentives.** Authorizes a 12-year extension of existing Multi-family Property Tax Exemptions (MFTEs) and established a new 20-year property tax exemption for the creation of permanently affordable homes. Expands the definition of cities that are eligible. *Passed House 81-16. Signed by Governor. Effective July 25, 2021.*
- ✓ [Senate Bill 5000](#) (Hawkins) – **Hydrogen Fuel Cell Electric Vehicles.** Provides a partial temporary sales tax exemption for new and used fuel-cell electric vehicles. *Passed House 93-4. Signed by Governor. Effective July 25, 2021.*
- ✓ [Senate Bill 5910](#) (Carlyle) – **Accelerating the Availability and Use of Renewable Hydrogen.** Adds the production of green electrolytic hydrogen to a number of existing tax exemptions that apply to the production of renewable hydrogen; creates the Office of Renewable Fuels to push for federal designation as a Hydrogen Hub; authorizes PUDs and municipalities to produce, use, sell, and distribute hydrogen. *Passed House 96-2-0. Signed by Governor. Effective June 9, 2022, with a few sections effective March 31, 2022.*
- ✗ [House Bill 1657](#) (Griffey) – **Addressing Commercial Truck Parking Supply through Tax Incentives.** Provides tax incentives for the construction of new commercial truck parking spaces accessible to the public and suitable for overnight use. *Finance. Died in House Rules.*
- ✗ [House Bill 1677](#) (Abbarno) – **Employer Tax Incentives for the Support of Veterans and Military Families.** Extends the duration and increases the maximum B&O tax credit an employer can claim for hiring a veteran, or spouse of a veteran or spouse of an active-duty military member to \$3,000 per employee hired. Would have increased the maximum total credit available in the state to \$5 million per year. *Died in House Rules.*
- ✗ [House Bill 1830](#) (Springer) – **Clarifying Sales Tax on Reusable Packaging Materials.** Clarifies that renting or leasing of packing material under a packing material sharing and reuse program is not a retail sale and is not subject to retail sales and use tax. *Died in House Rules.*